

BUSINESS STRATEGY IN THE HEALTH SERVICE

**Professional 2 examination
June 1999**

MARKING SCHEME



Question 1

(a) Study Unit 12

Resource Audit - to identify the quality and quantity of resources available to support strategy.

It will list what resources are available including any which give the Trust distinctive capability. Basic starting point for review.

Value chain analysis - a method of relating resources to the purpose for which they will be used, in terms of how they are used, controlled and linked together. Yields more detailed, analytical review.

Comparative analysis - a relative comparison of capability historically, or against industry norms, or against best practice.

It will answer such questions as what are examples of best practice elsewhere? How should the service be reshaped in the light of these comparisons? (eg Benchmarking)

Balance analysis - to assess whether the balance of resources is correct.

Flexibility analysis will list the main areas of uncertainty and the extent to which the services in questions are geared to cope with these.

Balance of people - does the Trust possess the right mix of skills to provide the services?

Gap analysis - do existing resources fall short of objectives planned for the future?

Is future demand likely to change to such an extent that current provision is totally inadequate?

2 marks

1 mark

2 x 5 m

- (b) Variations on the following are acceptable:

The student should make a distinction between the period leading up to award of the contract/SLA and the operation of the service thereafter.

Client – period to contract/SLA

Main role – to act as sponsor or buyer

Responsibilities:

Identify/select tenderers

Prepare ITT

Set evaluation criteria

Issue ITT

Receive bids

Evaluate bids

Award contract/SLA

Client – period post contract/SLA

3

Main role – to manage the contract

Responsibilities:

Managing the budget for the activity

Monitoring performance and standards

Agree changes to service specification

Link between customer and contractor

2

Contractor – period to contract/SLA

(5)

Main role to prepare the bid

Responsibilities:

Respond to ITT

1 or 2

Contractor – period post contract/SLA

Main role – to provide service delivery

Responsibilities:

Maintain levels of service

Manage service delivery

Quality assurance

Liaising with the client

1 or 2

(Up to a maximum of 3)

8

(18)

Question 2

SU2 & TU pg. 43

(a) Strategic Analysis:

Strategic Choice:

Strategic Implementation:

(1)

Linkages - examples include:

analysis generates strategic issues that feed into choice
choice will be a function of capability, which will impact on implementation
capabilities linked to evaluation linked to implementation
environment linked to generation linked to monitoring
review linked to capabilities and environment

(1 mark for each linkage identified and explained, up to a maximum of 3)

(b) Deliberate: planned strategy
 formal plans
 centrally driven
 workable in stable environment

Emergent: strategies which are realised differently
 from or in absence of intention
 internalise imposition into internal plans
 continuous response to the environment

(2 marks for each definition)

(c) Clearly answers may differ depending on the organisation concerned. Discussion should centre around extent to which strategies are realised as intended and would normally conclude that an emergent strategy is followed to at least some degree.

(Marks should be awarded for clear argument and conclusion.

Answer will discuss internal dynamics of strategy formulation and/or extent to which sectoral environment likely to impose strategy on an organisation)

1 mark per relevant point made.

(10)

(18)

Question 3

SU12

- (a) A full description of the model should include:
the picture of the model shown in SU 12,
a short note on the activities

(2 marks for the diagram/explanation of model, 2 marks explaining support activities, 2 marks explaining primary activities)

6

- (b) Uses include assessing:
resource utilisation
potential for cost leadership
effectiveness in establishing capabilities for differentiation
potential for integration
linkages *(1 mark for each point up to a maximum of 4)*

- (c) A good answer will attempt to match their organisation's activities to the value chain. eg

Health Sector:

Inbound Logistics: transport of patients & materials to the Trust.
admissions process

Operations: patient treatment

Outbound Logistics: transport of patients from the Trust
transfer process

Marketing: contracting process

Service: out-patients episodes
on-going review of case

Supported by secondary activities

Discussion of linkages would then be useful - e.g. problems in Inbound Logistics affecting the efficiency of Operations, and poor Operations having an effect on the cost of Service, through readmission.

8

Credit is available for conceptual discussion of applicability or otherwise as well as illustrative matching.

(½ mark per activity identified to maximum of 3, ½ mark per explanation of activity to max of 3, 2 marks for linkages explained)

(18)

Question 4

(a) Barriers to change:

Routines
Culture
Power bases
Systems
Symbols

(½ mark for identifying each barrier plus ½ mark for explaining why it is a barrier to change - total 5 marks)

Management Styles:

Education
Participation
Intervention
Negotiation
Manipulation
Power

(½ marks for identifying each style to a maximum of 2 marks, plus ½ mark for outlining the style - total 4 marks)

(9)

(b) Budget monitoring:

pros. system in operation
use of resources against objectives
cons. inputs not outputs
lateness of preparation

Contract monitoring:

pros. monitored by client
external performance management
cons. may not cover all of strategy
external focus

Monitoring quality: (questionnaires etc.)

pros. all embrative
 output orientated

cons. cost of collection
 Selznick's management theory

(1 mark for description, 1 mark for pros and 1 mark for cons)

(9)

(1/2 mark for identification without description)

(18)

Question 5

(a) DCF Calculations

Option A

Year	Cashflow (£000)	DF	DCF (£000)	
0	(4,000)	1	(4,000)	
1-30	975	13.765	13,420.875	
			<hr/> 9,420.875	NPV

Option B

Year	Cashflow (£000)	DF	DCF (£000)	
0	(1,000)	1	(1,000)	
1-15	800	9.712	7,769.6	
			<hr/> 6,769.6	NPV

Option C

Year	Cashflow (£000)	DF	DCF (£000)	
0	(3,000)	1	(3,000)	
1-15	1,150	9.712	11,168.8	
			<hr/> 8,168.8	NPV

Annual Equivalent Calculations

Option A	$\frac{£9,420,875}{13.765}$	= £684,407.91
Option B	$\frac{£6,769,600}{9.712}$	= £697,034.59
Option C	$\frac{£8,168,800}{9.712}$	= £841,103.78

6

1 mark - identification of cashflows
1 mark - identification of annuity factor
1 mark - discounting

1 mark - NPV

(max 1 mark deducted for errors in calculations)

2 marks - AE Calculations

Weighted Benefit Analysis

Options

Criteria	Weight	A		B		C	
		Score	Weighted Score	Score	Weighted Score	Score	Weighted Score
V	6	5	30	6	36	9	54
W	3	6	18	7	21	5	15
X	2	7	14	5	10	5	10
Y	1	7	7	6	6	5	5
Z	2	8	16	1	2	5	10
			85		75		94

weightings 1 mark, Analysis/weighted score 2 marks, comment/conclusion 1 mark

4

(b) **Principle risks**

- outcome is a function of subjective weights and scores
- ability of projects to meet timescale assumed
- ability to raise levels of finance assumed within timescales assumed
- robustness of income and cost assumptions; relatedly student numbers consistent with each option

Further work:

- redo wba with different weights, based upon discussion with senior managers
- preliminary pre-tender discussions with interested contractors concerning feasibility of timescale assumptions, reinforced by communicating intention to include penalty clauses in specification
- discussions with commercial property agents; investigation of possible incentive arrangements to encourage target meeting
- examination of student projections; discussion of these with national authorities; discuss cost projections with budget managers and commercial lenders

(1 mark per relevant point) 8

(c) **Advantages:**

- transfer of risk
- greater efficiency of management may impact favourably on revenue and running cost performance
- may make timing of land disposals less material

Disadvantages:

- identification of partner is a complex process with a number of uncertainties
- likely to require higher cost of capital
- loss of control
- possible decrease in quality

1 mark per relevant point

5

(23)

Question 6

(*underlining denotes key points*)

- (a) SU2- The Corporate Plan is clearly intended to be a strategic, not a business, plan although it has strayed into the operational area with targets being set for standards of delivery of some services. The glaring omission is that the stakeholders have not been involved or even consulted in the preparation of the plan. Nor has any serious effort been made to sell the ideas to staff. The plan itself is too big at 30 pages and the objectives are not fully SMART, e.g. there is no clear target for answering telephone calls. There is no mention of the existence of departmental business plans and no arrangements for feedback and monitoring. There can therefore be no effective review of strategy.

Other relevant points can also be made by the student.

1 mark for each point up to 8

- (b) As with most plans, the intentions, if not the contents, are probably sound. The plan has been launched so it cannot be “unwritten” and started again, and the student should recognise this: the answer to part (b) should not simply be a reversal of the points made in part (a).

1

- The first step would be the relaunching of the Plan, which would serve to address the missing element of communication. This should be done in such a way as to ensure that all stakeholders, especially staff, are aware of its existence and its contents.

2

- Finance, in common with other business units, needs to prepare its own departmental business or operational plan to translate the strategic into the deliverable. Points which appear in the scenario indicate that the Finance Department has a problem in communicating with the public and also financial reporting does not seem good. There are perceived problems with staff numbers, attitude (“the enemy”) and morale, all of which need to be addressed by the operational plan.

Thus the operational plan might need to include enhanced staffing, though resources for this would need to be sanctioned training in eg telephone response.

(1 mark per point) 5

(8)

- (c) This section seeks an understanding of the planning process. The candidate should set out the basic steps.

SU 4 sets out the basics of business planning:

- Involve others, e.g. Councillors Employees
 Unions Pressure Groups
 Creditors Commissioners
 Suppliers Government

Local Community

- “Top - down” or “bottom - up” approach?
- Determine the context in which the organisation or unit exists.
- Its current position.
- Action to be taken.
- Other information which is helpful in putting the plan into perspective for users of the plan.
- Presentation of the plan.
- Monitoring & Review

(1 mark per relevant point) 7
(23)